



**The Japanese Institute of
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Mr. Ken Siong

Technical Director

International Ethics Standards Board for Accountants

International Federation of Accountants

529 Fifth Avenue, 6th Floor,

New York, NY 10017

USA

Dear Mr. Siong:

Re: JICPA comments on the IESBA Consultation Paper, *Professional Skepticism – Meeting Public Expectations*

The Japanese Institute of Certified Public Accountants (JICPA) appreciates this opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) Consultation Paper, *Professional Skepticism – Meeting Public Expectations*.

Our responses to the specific questions raised by the IESBA are as follows:

1. Paragraph 5 – Do you agree with the premise that a key factor affecting public trust in the profession is whether information with which a professional accountant is associated can be relied upon for its intended use?

(Comment)

We agree with the premise.

When a professional accountant in public practice is associated with information in the course of providing professional services, or when a professional accountant in business is associated with information in the course of carrying out professional activities, the premise that said information can be relied upon for its intended use is necessary in order for a professional accountant to fulfill the responsibility to act in the public interest.

However, when revising the Code, it should be explicitly stated that the requirement to respond to the expectation shall be limited to cases in which a professional accountant in public practice is

associated with information in the course of providing professional services, or in which a professional accountant in business is associated with information in the course of carrying out professional activities. This is because professional accountants other than auditors are involved in a variety of activities, and it is not necessarily the case that these services or activities are associated with information, so the behavioral characteristics discussed in this consultation paper should be limited to the situations described above.

2. Paragraph 10 – Do you agree with the behavior associated with public expectations of professional accountants? Are there aspects that should be included or excluded from the summary?

(Comment)

We agree with the behavior described in paragraph 10. There are no aspects that should be included or excluded.

3. Paragraphs 13 and 14 – Do you agree that the mindset and behavior described in paragraph 10 should be expected of all professional accountants? If not, why not?

(Comment)

We agree that these should be expected of all professional accountants. However, as stated in 1., when revising the Code, it should be explicitly stated that the requirement to respond to the expectation shall be limited to cases in which a professional accountant in public practice is associated with information in the course of providing professional services, or in which a professional accountant in business is associated with information in the course of carrying out professional activities.

4. Paragraph 16 – Do you believe the fundamental principles in the Code and related application material are sufficient to support the behaviors associated with the exercise of appropriate “professional skepticism?”

(Comment)

We believe that the fundamental principles in the extant Code and the related application material provide sufficient support for the behaviors described in paragraph 10. However, with regard to perceptions of the expectation gaps, we also agree that there are concerns that a part of the application materials might be unclear and the behavior of the professional accountant is not grounded on an adequate understanding of the fundamental principles. In order to enable professional accountants to base their behavior on an adequate understanding of the fundamental principles, and in order to avoid public expectation which exceeds the intended level of the requirement resulting from stakeholders’ misunderstanding due to unclear application materials, we

believe it is necessary to bear in mind these in addition to the consideration of the factors described in paragraph 14, and by doing so, additional materials should be developed.

5. Paragraph 18 – Do you believe professional skepticism, as defined in International Standards on Auditing, would be the appropriate term to use?

(Comment)

We do not believe that professional skepticism, as defined in International Standards on Auditing, would be an appropriate term for use in the IESBA Code. This is because the existing professional skepticism defines required behavior when conducting an audit and, because the wording for audits was decided after sufficient scrutiny, and it is also an important theme for inspections by the audit oversight bodies and the audit regulators, we believe that this wording should be used only for conducting an audit. We also oppose it on the grounds of the disadvantages described in paragraph 18, such as diluting the meaning as a standard for conducting an audit if it applies to all professional accountants.

6. Paragraph 19 –

- (a) Do you believe that the Code should retain/use the term “professional skepticism” but develop a new definition?
- (b) If so, do you support a new definition along the lines set out in paragraph 19?
- (c) If you do not support a definition along the lines described, could you please provide an alternative definition.

(Comment)

We oppose developing a new definition and continuing to use this term “professional skepticism” because it would create the confusion described in paragraph 19.

7. Paragraph 20 –

- (a) Would you support an alternative term to ‘professional skepticism’, such as ‘critical thinking’, ‘critical analysis’ or ‘diligent mindset’?
- (b) If not, what other term(s), if any, would you suggest which focusses on the mindset and behaviors to be exercised by all professional accountants?

(Comment)

We oppose developing an alternative term because this would cause confusion since a professional accountant conducting an audit would be bound by two concepts if the alternative term to use of behavior expected of all professional accountants is introduced.

In addition, we are concerned that an increase in the number of terms could result in misunderstandings, and stakeholders’ expectation which exceeds the intended level of the

requirement. Furthermore, a lack of clarity with regard to the relationship between the alternative term and the existing fundamental principles, in particular the principle of objectivity, professional competence and due care, could also cause misunderstandings.

8. Paragraph 21 – Should the IESBA develop additional material, whether in the Code or otherwise, to highlight the importance of exercising the behavior and relevant professional skills as described? If yes, please suggest the type of application material that in your view would be the most meaningful to enhance the understanding of these behavioral characteristics and professional skills.

(Comment)

We support the option described in paragraph 21. However, as described in 4., in order to enable professional accountants to base their behavior on an adequate understanding of the fundamental principles, and in order to avoid public expectation which exceeds the intended level of the requirement resulting from stakeholders' misunderstanding due to unclear application materials, we believe it is necessary to bear in mind these in addition to the consideration of the factors described in paragraph 14, and by doing so, additional materials should be developed.

9. What implications do you see on IAASB's International Standards as a result of the options in paragraphs 18 to 21?

(Comment)

As described in 8., we support the option described in paragraph 21. Accordingly, we believe it will have no impact on the concept of professional skepticism defined in IAASB's International Standards, nor do we believe that it should have an impact.

10. Paragraph 22 – Should the Code include application or other material to increase awareness of biases, pressure and other impediments to approaching professional activities with an impartial and diligent mindset and exercising appropriate professional skepticism in the circumstances? If yes, please suggest the type of materials that in your view would be the most meaningful to help professional accountants understand how bias, pressure and other impediments might influence their work.

(Comment)

Professional accountants should have an adequate understanding of the meaning of terms such as “bias” and “pressure,” but in order to address the issue of inappropriate responses to biases, pressure and other impediments, we believe scientific research should be conducted, including research on the psychological aspects, and application or other material should be developed based on the research findings.

We hope the comments provided above will contribute to the robust discussions at the IESBA.

Sincerely yours,

Sayaka Shimura

Executive Board Member - Ethics Standards

The Japanese Institute of Certified Public Accountants